## STATEMENT OF FRANK FORMICA, OWNER, FORMICA BROTHER'S BAKERY, BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS

May 15, 2008

"Food Prices and Small Businesses"

American Bakers Association 1300 I Street, NW Suite 700 Washington, D.C. 20005 (202) 789-0300 www.americanbakers.org I would like to thank the House Committee on Small Business, Chairwoman Velazquez and Ranking Member Chabot for holding this critically important hearing on the impact of high food prices on small businesses. The current food and commodity crisis has greatly impacted my business, and I appreciate the opportunity today to present ways to move towards realistic solutions to this situation.

My name is Frank D. Formica and I am an Italian-American businessman who proudly represents over a century of family tradition in the baking industry. I am the owner of Formica Brother's Bakery in Atlantic City, New Jersey, and I am here today speaking on behalf of bakers across the country who are represented by the American Bakers Association.

The Formica legacy began over 100 years ago when my grandfather Francesco and Grandmother Rosa emigrated from Sicily and built Formica's, realizing the American dream. I grew up with flour between my fingers, baking Italian breads alongside my grandfather and my uncles. Today we produce over 40,000 pieces of bread a day, creating roughly 200 different varieties of hand-crafted European breads which are sold to the wholesale and retail markets in the greater Atlantic City area.

Our daily retail base of over 500 customers and the roughly fifty-five families who work for the bakery depend on Formica's staying in business, a responsibility that I do not take lightly, and one that keeps me up at night thinking about what the future will hold.

Establishments like my bakery are quite literally the backbone that supports our nation's economy. In my case, it represents over a century of long hours, hard work and proud family tradition which quickly has become at risk of extinction.

Let me share with you some examples of how the current economic conditions in our country are impacting Formica's Brothers Bakery and our customer base. On a weekly basis,

Formica's uses over 50,000 pounds of flour. The price of baker's flour had been fairly stable for well over 20 years at \$.14 cents a pound. As of September 2007, the price of flour began to steadily increase until it reached a peak of over \$.60 cents a pound in March. Today the price of flour is \$.40 cents. What does this mean to Formica's? A year ago we paid \$7,000 a week (or \$364,000 a year) for flour, but today that number has escalated to \$20,000 per week (\$1,040,000 a year).

Unfortunately, wheat flour is not the only increased commodity cost that threatens my business. On a weekly basis, Formica's uses over 600 gallons of fuel to deliver product to our wholesale customers. Last year on average, the cost to the business was \$1,200 a week (equating to approximately \$62,400 a year); today the cost to my business is \$2,000 a week (\$104,000 a year).

In another example, last year Formica's successfully marketed our products to distributors and school food program manufacturers representing over 267 school districts on the East Coast. Formica's invested over \$500,000 in capital investment improvements, including equipment and facilities, to support the increased volume in business. As the price of commodities escalated, especially for flour, the price point necessary to produce the products became unacceptable to school budgets and subsequently the schools cancelled the program. As a result, I had to lay-off many employees and try to re-coup costs associated with this lost contract which I and my employees had counted on.

In addition, we've seen prices increase for the entire inventory of products and services that we depend on to run our business. While we have been able to pass on some of these increases to our customers in the form of higher prices for our products, the majority of the impact is being absorbed in my bakery's profit margin. It is of grave concern to me that what

used to be my profit margin has now become a fight to keep my business's head above water for the first time in over 92 years; today we are facing more challenges than we did during the lean times of the Great Depression.

To respond to these record high prices, I, along with many other bakers from across the U.S. came to Washington D.C. in March of this year to participate in the Band of Bakers March. ABA, in conjunction with many other food industry associations and their members, met with members of Congress, the USDA and the White House to discuss what can be done in light of the current commodity crisis.

The perfect storm has been brewing right under our noses - high commodity and food prices have been caused in part by many factors, including increased worldwide demand, a weakened dollar and adverse weather events such as last year's drought in Australia. But the ethanol program, which continues to subsidize food for fuel, and other government programs that pay farmers not to farm their land but let acres sit idle, have also led to the current food crisis. On behalf of my customers, my employees, my family, the community I represent and the baking industry, I urge you take the following actions in order to help alleviate this crisis.

First, I urge Congress to waive the ethanol mandate. Recent studies have demonstrated that a biofuels mandate will increase overall food prices by 7 percent in 2008 and 8 percent in 2009. Prices for grocery store products have already risen by 5.3% in the first quarter of 2008, surpassing total inflation for food products for the entire year of 2007. Baked goods, including cereals and breads, have increased by over 15%.

Consumer prices will continue to increase at record rates unless action is taken to alleviate the food for fuel dilemma. At this time of growing worldwide food shortages, I have to ask why the government continues to incentivize farmers through subsidies to grow corn for

ethanol and not corn or other grains for food uses? The U.S. has a finite number of acres to use for farming, and fuel crops have taken over many acres that were previously used to grow food crops. Where will the land come from to grow more food crops as well as to meet new ethanol mandates? U.S. cropland is already stretched to its limit.

Under the energy bill passed by Congress last year, waiving the Renewable Fuel Standard (RFS) is possible when domestic supplies are not sufficient to meet demand or when implementing the RFS may severely harm the economy – we are now in the midst of insufficient demand and the RFS will only exacerbate the current food crisis.

In conjunction with waiving the RFS, it is also imperative to eliminate both the ethanol import tariff and domestic blender's credit. A recent study conducted by Purdue University found that the current ethanol program raised U.S. food costs by \$15 billion in 2007. Other statistics show that while a fourth of the U.S. corn crop was burned as fuel in 2007, it only cut oil consumption by less than one percent. The corn-based ethanol program clearly is not working. Consumers cannot continue to pay for increased food costs due to the ethanol program. I encourage members of this committee to revisit the damaging food for fuel ethanol program, and ask the committee to take necessary actions in order to ensure that the current food crisis is alleviated.

Next, I urge members of Congress to address the increasing pressure on arable farm land in the US, as Congress and the government encourage production of biofuels. Currently, 34.6 million acres of US cropland idled through the Conservation Reserve Program. A significant portion of CRP acreage located in large wheat producing states. We believe that as much as one-third of acres under contract in the CRP could be returned to production without sacrificing environmental goals.

Wheat plantings have tumbled in the last 10 years, and the US now harvests fewer wheat acres than it did in 1898. In most years, US production of wheat for bread is insufficient to meet total usage. Today, wheat stocks are dangerously low. Current estimates peg wheat stocks at twenty-four days, two-thirds lower than average supplies. Low commodity stocks in the U.S. leave too much to chance, as even a slight weather or transportation problem could lead to even more serious worldwide food shortages and could create homeland food security issues.

Recently published USDA reports project that wheat plantings for the 2008 crop year have dramatically increased for this next crop cycle – these reports forecast that wheat plantings will increase by over 4 million acres. While this sounds like good news, even the USDA recognizes that any increase will be "more than offset by increased use and trade prospects", meaning that even with additional wheat entering the food chain, it will not be in sufficient quantity to improve the current supply situation.

Even though projected plantings are estimated to increase over this next year, Bakers and consumers are more concerned with what is actually harvested and entered into the market for use, not what is planted. It should be noted that USDA projected a similar positive outlook in April 2007, but over Easter weekend last year a heavy freeze hit the wheat belt, devastating much of the anticipated crop. So far this year there has not been a spring frost, but an early freeze last fall which impacted the plantings and recent torrential rains coupled with possible future adverse weather conditions could greatly diminish the anticipated harvest this summer.

Because of the current commodity and food crisis, bakers and other industries in the food sector are being forced to make tough business decisions. As I speak to you today, my business is faced with consolidating our distribution, laying off employees and/or asking current staff to

take on more responsibilities in order to stay afloat. Each of these scenarios has one thing in common - none are good news for the economy, my community and our nation.

The commodity crisis greatly impacts American families, making it more difficult for consumers to put food on the table and for businesses, especially small businesses like Formica's, to keep their doors open. I believe that implementing the changes to our current energy and agricultural policies as outlined in this statement will not only allow the market to correct itself, but more importantly, will ease concerns regarding the threat of food shortages. Thank you again for the opportunity to address this important issue with each of you today.

Frank Formica